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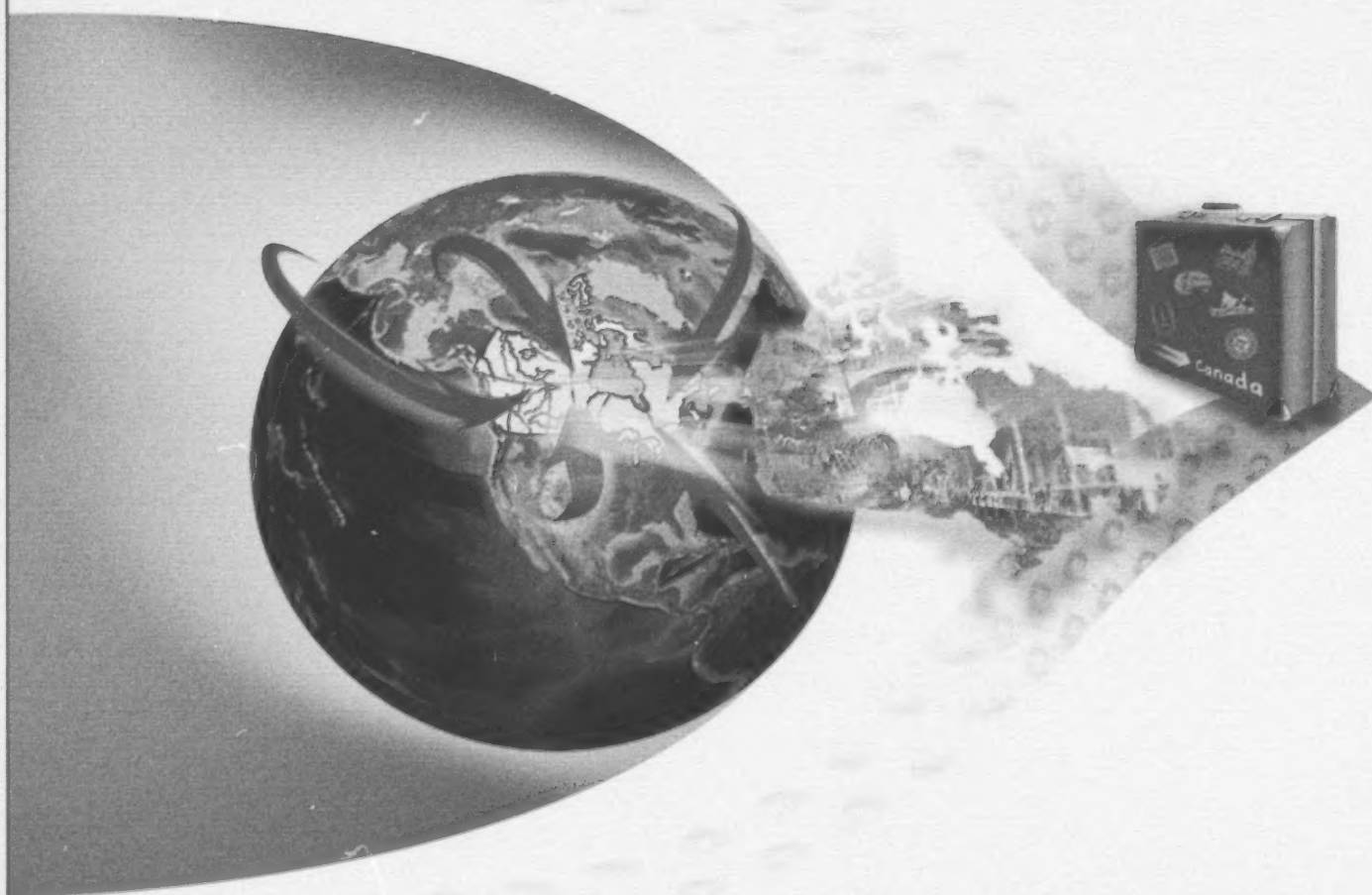
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SME Profile: Tourism Industries in Canada

March 2015



Small Business Branch
Research and Analysis Directorate

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Executive Summary

This report is an update of *Financing Profiles: Small and Medium-Sized Enterprises in Tourism Industries* (Pierce, 2011). It provides an overview of business characteristics, owner characteristics and recent financing activities of Canadian small and medium-sized enterprises in tourism industries (tourism SMEs) in comparison with SMEs in other industries (other SMEs). It accomplishes this by comparing two points in time: pre-recession credit conditions—using 2007 data—and post-recession conditions—using 2011 data. As such, it is the first report on financing of tourism SMEs to be published using post-recession data.

The report highlights the importance of tourism SMEs to the Canadian economy—they account for 99.9 percent of businesses in tourism industries. A detailed analysis of recent financing activities, innovation activities and financial performance follows.

The report reveals that:

- Tourism SMEs tend to be younger and larger businesses that are more growth oriented than other SMEs. There are also relatively more female, immigrant and visible minority entrepreneurs operating in tourism industries.
- Principal challenges faced by tourism SME owners include the rising cost of inputs, increasing competition and fluctuations in demand.
- Personal financing; credit from financial institutions, such as domestic chartered banks; and leasing remain the three main sources of financing used by tourism SMEs. However, tourism SMEs experience more difficulty obtaining financing from domestic chartered banks—the main providers of external financing to SMEs—than other SMEs.
- Debt financing is the most common type of financing sought by both tourism and other SMEs. However, both groups experience more difficulty obtaining this type of financing than other types of financing that are less risky.
- Tourism SMEs are more likely to introduce product innovation than other SMEs. They are also more likely to benefit from increased sales and reduced costs as a result of their innovations.
- On average, small businesses in tourism industries have higher total revenues than small businesses in other industries, but they also have lower average profits due to higher total expenses.

1. Introduction

Tourism Industries in Canada

Every year, Canada welcomes over 25 million same-day and overnight visitors, with travellers from the United States accounting for close to 80 percent of total international visits to Canada. In recent years, Canadian tourists have fuelled growth in Canadian tourism industries. Domestic demand from Canadian visitors accounts for approximately 80 cents of every dollar spent on tourism goods and services in Canada.¹

Tourism plays a vital role in Canada's economy, accounting for over \$33 billion—or close to 2 percent—of Canada's gross domestic product and representing almost 19 percent of total service exports in 2013. Tourism drives key service industries such as accommodations, food and beverage services, passenger transportation, recreation and entertainment, and travel services. In 2013, tourism activities provided over 1.6 million jobs to Canadians. Small and medium-sized enterprises (SMEs) constitute the backbone of tourism in Canada, accounting for 99.9 percent of businesses in tourism industries.

Access to financing is one of the most critical factors affecting growth of SMEs. In many cases, SMEs experience difficulty obtaining the financing they need to acquire assets, pay day-to-day expenses or

expand into new markets. Obtaining financing can be particularly difficult for SMEs in tourism industries (tourism SMEs) because financial institutions may view them as relatively risky compared with SMEs in other industries (other SMEs).

Given the importance of financing to the success and growth of a business, this report investigates the financing activities of tourism SMEs and identifies the financing needs and obstacles they face. This report is an update of *Financing Profiles: Small and Medium-Sized Enterprises in Tourism Industries* (Pierce, 2011). It provides an overview of business characteristics, owner characteristics and recent financing activities of Canadian tourism SMEs in comparison with other SMEs. It uses data from Statistics Canada's *Survey on Financing of Small and Medium Enterprises*, 2007, and *Survey on Financing and Growth of Small and Medium Enterprises*, 2011. The focus is on results from the 2011 survey and comparisons are made with the 2007 survey results when possible.

1. Canadian Tourism Commission, *Global Tourism Watch: 2013 Canada Summary Report*.

Data and Definitions

This report uses the comprehensive database of the *Survey on Financing of Small and Medium Enterprises*, 2007, and *Survey on Financing and Growth of Small and Medium Enterprises*, 2011. The Statistics Canada survey, generally conducted every three years, measures the demand for, and sources of, financing for Canadian SMEs. The database includes information on requests for financing, firm characteristics and demographic characteristics of SME owners. The representative samples consist of 10,218 respondents in 2007 and 9,976 respondents in 2011.

For the purpose of this report, an SME is defined as a business with 1 to 499 paid employees and less than \$50 million in annual revenues. Non-employer businesses and the self-employed are excluded. Also excluded from this population are non-profit and government organizations, schools, hospitals, subsidiaries, co-operatives, and financing and leasing companies.

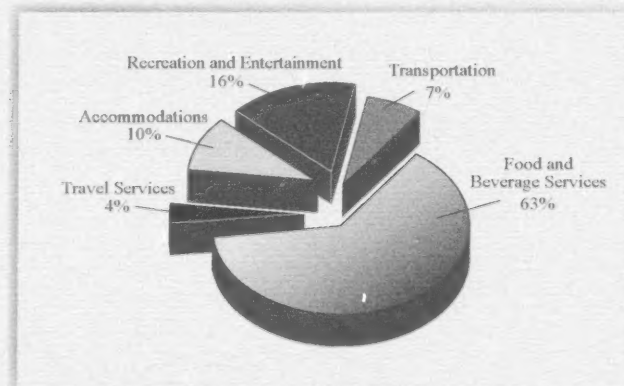
A tourism SME is defined as a business that meets the above criteria and operates within tourism industries. The appendix provides a list of North American Industry Classification System (NAICS) codes included in tourism industries based on the methodology developed for Statistics Canada's *Canadian Tourism Satellite Account* (CTSA). According to the CTSA, a tourism industry "would cease or continue to exist only at a significantly reduced level of activity as a direct result of an absence of tourism."² This implies that a tourism business may serve both tourists and local customers, as is the case with restaurants and hotel facilities. It should be noted that due to difficulty in measuring the share of economic activity attributable to tourism, this report considers all SMEs operating in these tourism industries as tourism SMEs unless otherwise specified.

In 2007, the unweighted sample consisted of 1,229 respondents in tourism industries and 8,989 respondents in other industries. In 2011, the sample included 698 respondents in tourism industries and 9,278 respondents in other industries. These observations were weighted to represent the whole economy.

2. Distribution by Industry

In 2013, 9 percent of the estimated 1.2 million SME employers in Canada operated in tourism industries. The majority of tourism SMEs operated in the food and beverage services industry (63 percent), followed by recreation and entertainment (16 percent), accommodations (10 percent), transportation (7 percent) and travel services (4 percent) (Figure 1).

Figure 1: Distribution of Tourism SMEs by Industry, 2013



Source: Statistics Canada, 2013. Business Register.

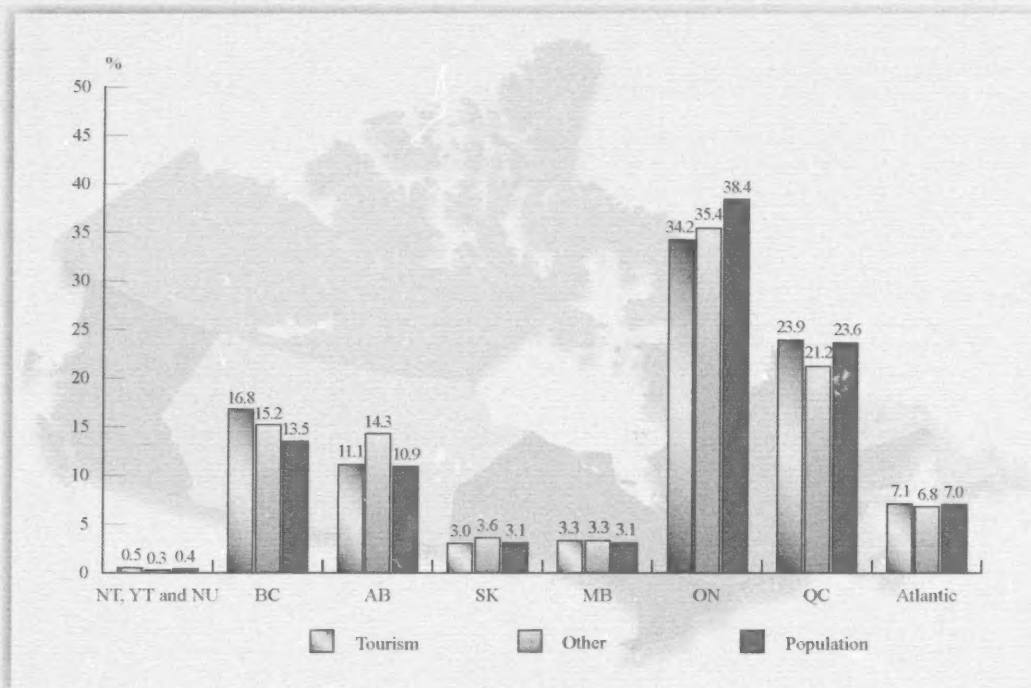
2. Statistics Canada, 2010.

3. Distribution by Geography

Tourism SMEs operate in every province and territory in Canada and their geographical distribution is roughly proportional to the distribution of other SMEs (Figure 2). Tourism SMEs are concentrated in Quebec (24 percent) and Ontario (34 percent). In British Columbia and

Quebec, the concentration of SMEs in tourism industries surpasses the concentration of SMEs in other industries. Ontario is the only province in which the share of the Canadian population exceeds the share of tourism and other businesses.

Figure 2: Regional Distribution of Tourism SMEs, 2013



Sources: Statistics Canada, 2013. Business Register; and Statistics Canada, *Canada at a Glance 2013*.

The food and beverage services industry has the highest representation of tourism SMEs in Canada (63.4 percent), ranging from 54.9 percent in Atlantic Canada to 68.0 percent in Ontario (Table 1). Recreation and entertainment has the second-highest representation of tourism SMEs at 15.8 percent, ranging from 14.0 percent in Alberta to 18.2 percent in Atlantic Canada. In general, travel services has the lowest share of tourism SMEs in every province and territory, except for Ontario where transportation is slightly lower.

Tourism SMEs are more likely to operate in rural areas than other SMEs, with one in four tourism SMEs operating in rural areas compared with one in five SMEs in other industries (Figure 3). This is not surprising as many Canadian tourist destinations and activities lie outside urban areas (e.g., national parks, nature and theme parks, ski resorts, golf courses, spas, fishing and hunting camps, campgrounds, etc.).³

3. "Canada's tourism industry benefits from strengths inherent to the country itself, such as natural wilderness and parks, which are well known across the world. This recognition of Canada's naturally endowed environment and large tracts of uninhabited areas rich with mountains and lakes provides a strong base for environmental tourism and four-season outdoor activities." Euromonitor International, *Tourism Attractions in Canada*, August 2013, page 15.

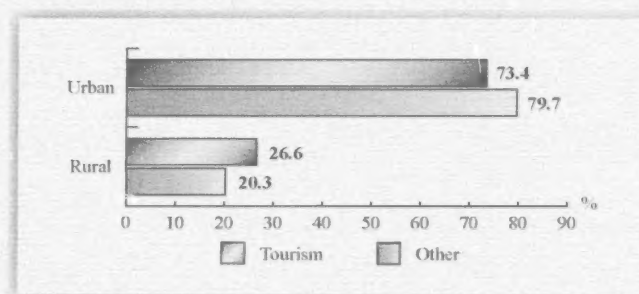
Table 1: Distribution of Tourism SMEs by Region and Industry, 2013

	Transportation (%)	Accommodations (%)	Food and Beverage Services (%)	Recreation and Entertainment (%)	Travel Services (%)
<i>Canada</i>	<i>6.4</i>	<i>10.1</i>	<i>63.4</i>	<i>15.8</i>	<i>4.3</i>
Atlantic	5.9	17.9	54.9	18.2	3.1
Quebec	7.9	8.8	63.0	16.6	3.6
Ontario	4.4	7.5	68.0	15.2	4.9
Manitoba	11.2	13.2	55.5	16.9	3.2
Saskatchewan	5.0	18.5	57.5	16.0	3.0
Alberta	5.0	10.9	66.4	14.0	3.7
British Columbia	8.5	10.6	59.8	15.8	5.3
Northwest Territories, Yukon and Nunavut*	19.3	33.2	27.4	15.2	4.9

* In the territories, SMEs operating in tourism industries are more focused on serving local customers than tourists due to low population density and large distances between communities. As a result, statistics on the territories are not comparable with other regions and are presented for information purposes only.

Source: Statistics Canada, 2013. Business Register.

Figure 3: Rural and Urban Distribution of Tourism SMEs, 2011



Note: Bold values denote statistically significant difference at 5 percent.

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

4. Employment

The *Provincial-Territorial Human Resource Module of the Tourism Satellite Account* captures data on employment in tourism industries and complements Statistics Canada's 2007 and 2011 surveys. It should be noted that data from that module include all jobs in businesses of all sizes within tourism industries, not just those in SMEs that depend upon tourism activities.

Tourism industries employed over 1.6 million Canadians in 2012,⁴ a 4.8-percent increase over 2007 (Table 2). Despite this increase, the share of tourism in total employment remained flat at roughly 9.0 percent during the period. Overall, tourism industries outperformed all other industries over the 2007–12 period. The 2008 economic recession hit the rest of the economy harder

4. The broad dimension of employment in tourism industries is described in Statistics Canada's *Provincial-Territorial Human Resource Module of the Tourism Satellite Account*, 2012, available online at www.statcan.gc.ca/pub/13-604-m/13-604-m2014074-eng.htm.

(employment decreased by 1.9 percent) than tourism industries (employment down 0.3 percent). Moreover, tourism industries recovered more rapidly than the rest of the economy, with tourism jobs increasing by 4.7 percent between 2009 and 2012 compared with 4.5 percent for all other industries.

Looking by industry, transportation experienced the fastest growth in employment (up 11.5 percent) over the 2007–12 period, followed by travel services and food and beverage services (both up 5.3 percent). Jobs in accommodations grew 4.9 percent and employment in recreation and entertainment decreased 2.2 percent.

Table 2: Jobs in Tourism Industries and the Total Economy (thousands),¹ 2007–12

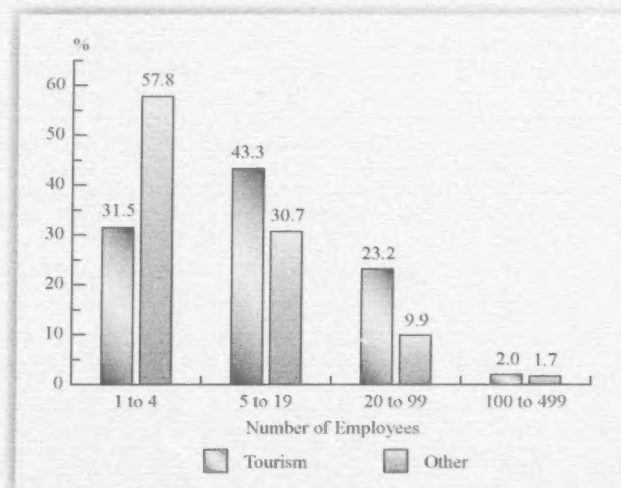
	2007	2008	2009	2010	2011	2012	Percentage Change ²		
							Recession 2008–09	Recovery 2009–12	Overall 2007–12
Tourism industries	1,544	1,551	1,547	1,573	1,595	1,619	-0.3	4.7	4.8
Other industries	15,555	15,827	15,534	15,812	16,087	16,232	-1.9	4.5	4.4
Total economy	17,099	17,373	17,080	17,385	17,683	17,851	-1.7	4.5	4.4
Share of tourism in total (%)	9.0	8.9	9.1	9.0	9.0	9.1			
Tourism Industries									
Transportation	229	228	223	244	251	255	-2.0	14.4	11.5
Accommodations	189	195	185	194	198	198	-5.5	7.4	4.9
Food and Beverage Services	801	800	804	812	822	843	0.6	4.8	5.3
Recreation and Entertainment	274	275	283	270	268	268	2.9	-5.2	-2.2
Travel Services	52	53	52	53	55	54	-2.4	5.1	5.3

Note 1: Figures may not add up due to rounding.

Note 2: The percentage change is based on non-rounded numbers.

Sources: Statistics Canada, Supplementary tables from the Provincial-Territorial Human Resource Module of the Tourism Satellite Account, 2012; and Industry Canada calculations.

Figure 4: Distribution of Tourism SMEs by Size (number of employees), 2013



Source: Statistics Canada, 2013, Business Register.

5. Business Characteristics

Business Size

The majority of SMEs in tourism industries (98 percent) are considered small, with fewer than 100 employees.⁵ The distribution of these businesses differs from that in other industries. A majority of tourism SMEs have between 5 and 99 employees, whereas the majority of other SMEs have fewer than five employees (Figure 4).

5. As reported in Industry Canada's *Key Small Business Statistics*, August 2013, the majority of businesses in Canada (98.2 percent in 2012) fall within the SME category.

There are also differences across tourism industries in the concentration of businesses of different sizes. A large share of SMEs in the transportation and travel services industries are micro businesses that employ fewer than five workers (Table 3). More

than three quarters of food and beverage services businesses (75.1 percent) fall within the 5–19 and 20–99 employee categories. The transportation industry has the largest share (4.4 percent) of medium-sized businesses (100–499 employees).

Table 3: Distribution of Tourism SMEs by Industry and Size (number of employees), 2013

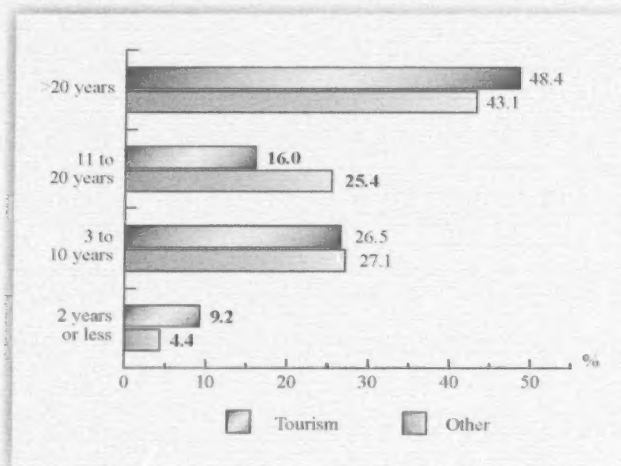
	Transportation (%)	Accommodations (%)	Food and Beverage Services (%)	Recreation and Entertainment (%)	Travel Services (%)
1–4 employees	51.5	35.9	23.7	45.1	56.5
5–19 employees	29.4	36.6	48.6	33.8	36.0
20–99 employees	14.6	23.2	26.5	18.0	6.3
100–499 employees	4.4	4.2	1.2	3.2	1.2

Source: Statistics Canada, 2013. Business Register.

Business Age

In Statistics Canada's *Survey on Financing and Growth of Small and Medium Enterprises*, 2011, tourism SMEs were younger, on average, than other SMEs (Figure 5), with twice as many tourism SMEs (9.2 percent) starting operations soon after the recession compared with other SMEs (4.4 percent). Of note, there were significantly fewer tourism SMEs between 11 and 20 years of age (16 percent) compared with other SMEs (25.4 percent).

Figure 5: Distribution of Tourism SMEs by Age, 2011



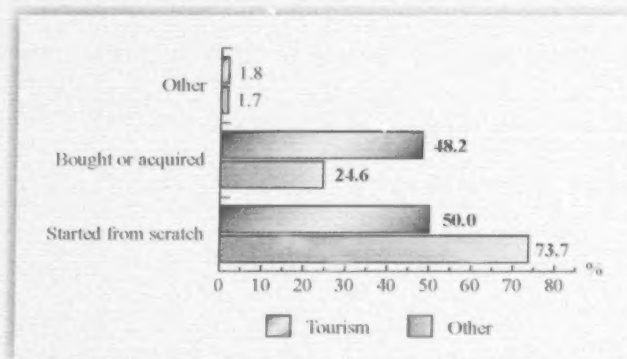
Note: Bold values denote statistically significant difference at 5 percent.

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Method of Possession

Significantly more owners of tourism SMEs (48.2 percent) bought or acquired their businesses than other SME owners (24.6 percent) (Figure 6). This figure is driven by SME owners in accommodations and food services, where 51.4 percent of owners acquired their business. This may suggest that once established, tourism SMEs change ownership more often than other SMEs. It could also mean that it is easier to acquire such businesses than to start them from scratch.

Figure 6: Distribution of Tourism SMEs by Method of Possession, 2011



Note: Bold values denote statistically significant difference at 5 percent.

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

6. Owner Characteristics

Statistics Canada's 2007 and 2011 surveys reveal notable differences in demographic characteristics between tourism and other entrepreneurs.

Women entrepreneurs were more involved in tourism SMEs than in other SMEs, in 2007 and 2011, even though both tourism and other SMEs continue to be predominantly majority male-owned (Table 4). In 2007, twice as many women held a majority ownership of their businesses in tourism industries (30.0 percent) compared with their businesses in other industries (13.5 percent). In 2011, the ratio was lower, with 21.3 percent of tourism SMEs majority owned by women entrepreneurs versus 14.9 percent for SMEs.

Immigrant owners⁶ were also more concentrated in tourism industries in 2011, as were visible minority owners in both 2007 and 2011. On the other hand, tourism SMEs were less likely to have Aboriginal owners in 2011, representing only 0.3 percent for tourism SMEs versus 1.7 percent for other SMEs.

The majority of SME owners were 40 years of age or older, independent of the business group or the year of the survey. A majority of SME owners surveyed in 2011 also had post-secondary education. Despite being similar in age and level of education to other SME owners, tourism SME owners had less managerial experience than other SME owners. In 2007, almost three quarters (74 percent) of other SME owners had more than 10 years of managerial experience compared with only 61.3 percent of tourism SME owners. A similar difference was observed in 2011 (78.2 percent of other SME owners had more than 10 years of managerial experience compared with 69.7 percent of tourism SME owners).

6. Due to a change in survey methodology, 2007 and 2011 data on immigrant status cannot be compared.

Table 4: Owner Characteristics, 2007 and 2011

Owner Characteristics	2007		2011	
	Tourism SMEs (%)	Other SMEs (%)	Tourism SMEs (%)	Other SMEs (%)
<i>Gender</i>				
Majority male-owned	49.3	69.2	59.1	67.2
Majority female-owned	30.0	13.5	21.3	14.9
Owned equally by men and women	20.7	17.3	19.6	17.9
<i>Background</i>				
Recent immigrant (within the last 5 years)	4.2	2.2	n/a	n/a
Immigrant (born outside of Canada)	n/a	n/a	32.0	20.5
Visible minority	20.3	8.4	14.3	9.2
Aboriginal	3.2	2.4	0.3	1.7
<i>Age</i>				
Less than 40 years	17.1	13.7	15.2	11.8
<i>Education and Managerial Experience</i>				
Post-secondary education	n/a	n/a	61.8	67.2
More than 10 years of managerial experience	61.3	74.0	69.7	78.2

Notes: Bold values denote statistically significant difference at 5 percent. "n/a" indicates that data are not available for specific reference period.

Sources: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007*; and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises, 2011*.

7. Growth

Tourism SMEs have experienced better growth patterns than other SMEs. In 2011, significantly fewer tourism SMEs (17.2 percent) reported having "no growth" than other SMEs (22.6 percent), and more tourism SMEs reported growing between 1 and 10 percent over the previous three years than other SMEs (Table 5). Tourism SMEs also appeared to be more optimistic about

future growth, with fewer anticipating negative growth (3.4 percent) than other SMEs (7.0 percent), and more expecting growth in the 1 to 10 percent range (64.2 percent) than other SMEs (55.2 percent). Both groups have comparable results concerning owners with high-growth expectations.

Table 5: Actual and Projected Revenue Growth, 2011

	Tourism SMEs (%)	Other SMEs (%)
Over the last three years (2009–11)		
Negative growth	14.4	16.3
No growth	17.2	22.6
Between 1 and 10%	51.6	42.7
Between 11 and 20%	8.9	10.7
More than 20%	7.9	7.7
Over the next three years (2012–15)		
Negative growth	3.4	7.0
No growth	15.4	17.9
Between 1 and 10%	64.2	55.2
Between 11 and 20%	9.9	12.3
More than 20%	7.1	7.5

Note: Bold values denote statistically significant difference at 5 percent.

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Perceived Obstacles to Growth

Tourism industries operate in a challenging environment, having to adapt to changing demographics, fluctuating economic conditions and evolving tourist tastes, and compete over new offerings in a growing number of domestic and international destinations.

SMEs in both tourism and other industries identified the “rising cost of inputs” as the most frequent external obstacle to growth (81.2 percent for tourism SMEs versus 61.1 percent for other SMEs), followed by “increasing competition” and “fluctuations in demand” (Table 6). Interestingly, fluctuations in demand was

the only obstacle that was reported more often by SMEs in other industries (53.0 percent) than tourism SMEs (45.1 percent). In all other cases, tourism SMEs perceived an obstacle to be more of a challenge to their business than other SMEs. Shortage of labour, and recruiting and retaining employees are often-reported barriers to growth for tourism industries, especially in the hotel and food and beverage services industries.⁷

7. Tourism Industry Association of Canada, *Gateway to Growth, Travel & Tourism Labour Force Report*, 2014.

Table 6: Perceived Obstacles to Growth, 2011

Obstacle		Tourism SMEs (%)	Other SMEs (%)
External	Shortage of labour	43.6	31.8
	Fluctuations in demand	45.1	53.0
	Obtaining financing	21.8	16.2
	Government regulations	44.9	32.1
	Rising cost of inputs	81.2	61.1
	Increasing competition	54.0	47.1
	Other external obstacles	26.4	21.6
Internal	Managing debt level	27.7	17.1
	Maintaining sufficient cash flow	39.7	36.9
	Lack of monitoring	18.8	16.0
	Lack of knowledge about competitors or market trends	14.3	13.1
	Devoting too much time to day-to-day operations	47.7	37.3
	Recruiting and retaining employees	53.9	37.2
	Other internal obstacles	9.9	9.3

Note: Bold values denote statistically significant difference at 5 percent.

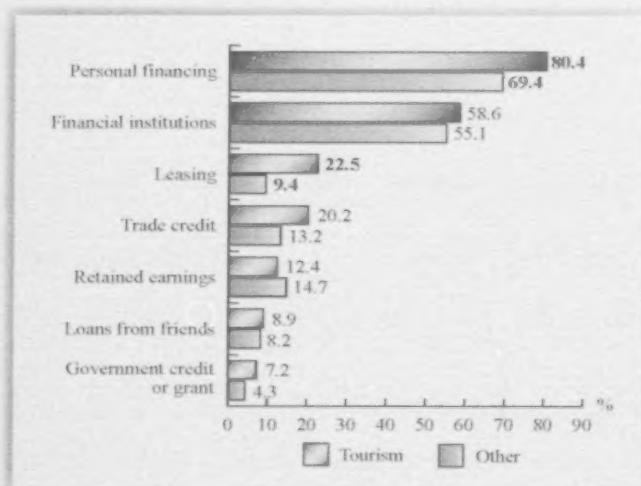
Sources: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

8. Capital Structure

Financing plays an important role in the growth and development of a business. Statistics Canada's 2007 survey coincided with the end of a growth phase that began in 1992–93 and was characterized by a favourable credit environment. Statistics Canada's 2011 survey, however, took place during a period when the credit environment had returned to conditions similar to those existing before the recession, but lenders remained more cautious when granting loans to small businesses. It is important to keep in mind this change when analyzing the surveys' results.

The top three sources of financing used by all SME owners to start their business were personal financing, credit from financial institutions and leasing, both in 2007 and in 2011 (Figures 7 and 8). Compared with other SME owners, significantly more tourism SME owners used personal financing and leasing in 2007. They were also significantly more likely to use credit from financial institutions, leasing, and government credit or grants in 2011.

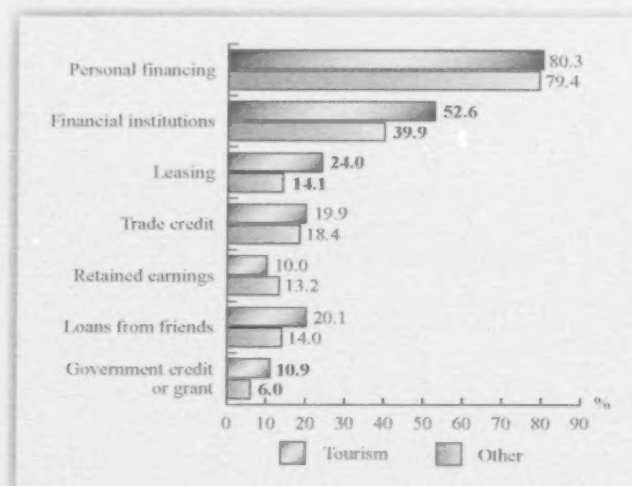
Figure 7: Top Seven Sources of Financing Used During Start-Up, 2007



Note: Bold values denote statistically significant difference at 5 percent.

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

Figure 8: Top Seven Sources of Financing Used During Start-Up, 2011



Note: Bold values denote statistically significant difference at 5 percent.

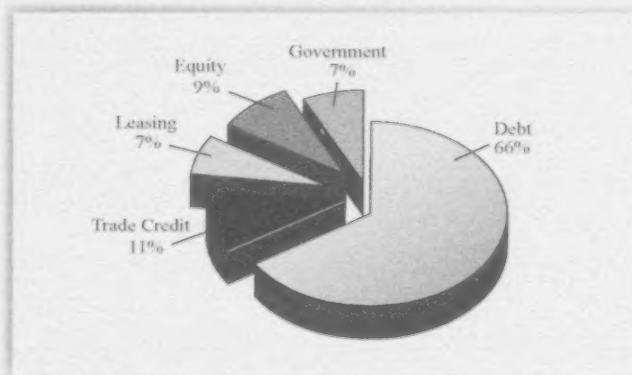
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

9. Financing Activities

When looking at the amount of financing authorized, debt financing is by far the most important source of financing for small businesses. In 2011, only one quarter of SMEs requested debt financing, but debt financing accounted for two thirds (66 percent) of the total amount of all external financing authorized to SMEs (Figure 9 and Table 7).

SMEs in both tourism and other industries use similar types of financing. One quarter of SMEs requesting debt financing in 2011 (Table 7), up from 2007. Requests for other types of financing declined from 2007 to 2011, with trade credit and lease financing declining the most.

Figure 9: Share of Financing Instruments in Total Financing Authorized to SMEs, 2011



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Table 7: Types of Financing Requested and Approved, 2007 and 2011

	Type of Financing	2007		2011	
		Tourism SMEs (%)	Other SMEs (%)	Tourism SMEs (%)	Other SMEs (%)
Request rate	Debt financing	12.2	16.7	24.5	25.6
	Lease financing	16.3	20.5	6.8	6.9
	Trade credit	25.8	31.9	6.2	8.3
	Equity financing	4.8	3.1	3.0	2.2
	Government financing	10.7	9.3	3.8	3.6
Approval rate	Debt financing	93.5	95.4	86.1	88.5
	Lease financing	95.0	94.9	100.0	97.1
	Trade credit	99.6	99.0	100.0	98.4
	Equity financing	—	80.6	—	77.7
	Government financing	—	79.6	99.9	81.8

Notes: Bold values denote statistically significant difference at 5 percent. Unreliable data on equity and government financing were not published and are indicated by "—" in the table.

Sources: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007; and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

While more requests were made for debt financing in 2011, SMEs found it hard to gain approval for financing. On average, in 2011, tourism SMEs were fully approved for lease financing, trade credit and government financing,⁸ whereas only 86.1 percent

of requests for debt financing were approved. SMEs in other industries faced similar approval rates.

One factor affecting approval rates for financing is the level of risk associated with each type of financing (see Box 1).

Box 1: Different types of external financing have different levels of risk

Compared with debt or equity financing, trade credit and lease financing involve less risk for the lender. Trade credit is commonly used by businesses as a source of short-term financing where the borrower agrees to buy now and pay the lender within the next 30 to 60 days. Risk is minimized because the lender bases this type of credit on his/her experience with the borrower. Risk is also lower for lease financing. In case of non-payment, the lender can seize his/her property as the lender continues to be the owner of the asset.

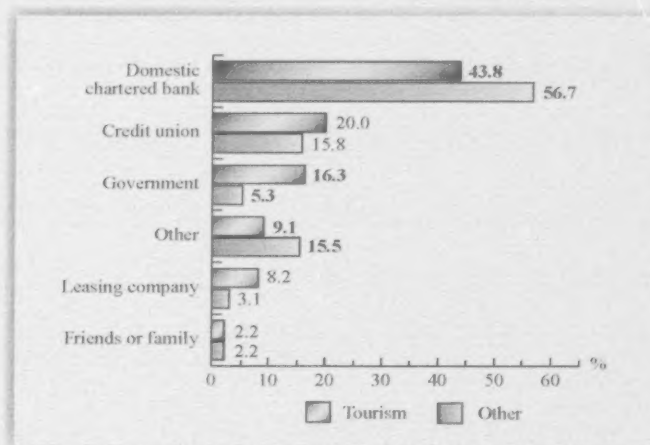
8. Approval rates do not distinguish between full and partial approval. In other words, a request for financing was considered "approved" as long as some amount (not necessarily the full amount) was approved. Approval rates do not consider scale and each request for financing was given the same weight in the calculations, i.e., a request for \$500 carried the same weight as a request for \$50,000.

Main Provider of External Financing

Domestic chartered banks (43.8 percent for tourism SMEs and 56.7 percent for other SMEs) and credit unions are the main providers of external financing for SMEs in both tourism and other industries (Figure 10). Significantly fewer tourism SMEs used domestic chartered banks and “other” providers of financing as their main provider of financing. At the

same time, tourism SMEs were more likely to use government institutions (16.3 percent for tourism SMEs versus 5.3 percent for other SMEs) as a provider of financing and were more likely to be approved for financing (99.9 percent) than other SMEs (81.8 percent) (Table 7).

Figure 10: Main Provider of External Financing, 2011



Notes: Bold values denote statistically significant difference at 5 percent. Data for venture capitalists and foreign banks or subsidiaries of foreign banks were unavailable.

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Tourism SMEs may rely more heavily on government financing because they conduct business in riskier industries and, therefore, may fail to obtain financing from domestic chartered banks more often. In fact, risk is the main reason credit providers hesitate to lend to SMEs in accommodations and food services.^{9, 10}

Thus, tourism SMEs may turn to government institutions, for example, the Business Development Bank of Canada (see Box 2), to obtain external financing or access loan guarantees, for example, under the Canada Small Business Financing Program (see Box 3).

9. Just under three quarters of tourism SMEs (73.5 percent) operate in accommodations and food services.

10. “Project was considered too risky” was the principal reason provided to 86.6 percent of SMEs in accommodations and food services that had their debt financing request turned down. Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Box 2: Business Development Bank of Canada

The Business Development Bank of Canada (BDC) has a mission to help create and develop Canadian business through financing, venture capital and consulting services, with a focus on SMEs.

BDC's financing aims to help entrepreneurs innovate, grow their businesses in Canada and around the world, increase their productivity and sharpen their competitive edge. It serves a range of purposes, including realty, refinancing, change of ownership, working capital, equipment, and information and communications technology adoption.

For Fiscal Year 2013–14, which ended in March 2014, the BDC had 3,353 tourism-related clients for an outstanding financing commitment of \$2.6 billion, or approximately 13 percent of BDC's total loans and guarantees portfolio in 2014.

Source: Business Development Bank of Canada, *BDC at a Glance*, 4th Quarter F2014.

Box 3: Canada Small Business Financing Program

The Canada Small Business Financing Program (CSBFP) helps small businesses with their financing needs. Under the program, the Government of Canada makes it easier for small businesses to obtain loans from financial institutions by sharing the risk with lenders.

Small businesses or start-ups may access up to a maximum of \$500,000* for any one borrower, of which no more than \$350,000 can be used for leasehold improvements or the purchase or improvement of new or used equipment.

For Fiscal Year 2012–13, financial institutions registered CSBFP loans worth \$300.3 million (33 percent of the total value of CSBFP loans) to 1,546 small businesses in accommodations and food services, the largest user of the program.**

For more information, visit www.ic.gc.ca/csbfp.

* On January 22, 2015, the Prime Minister announced changes to the program that will increase the maximum loan amount to \$1 million for borrowers seeking to acquire real property.

** Accommodations and food services represent 73.5 percent of all tourism SMEs in Canada.

Source: Industry Canada, *Canada Small Business Financing Act, Annual Report 2012–13*.

Financing Terms and Conditions

When a business is perceived as being more risky, it is not unusual for a lender to provide less favourable loan terms and conditions. In 2007, more tourism SMEs were required to pledge collateral to obtain the credit requested, but SMEs in both tourism and other industries were offered similar interest rates (Table 8).

The availability of credit dropped significantly during the 2008 economic recession and terms and conditions remained tight for several years. Financial institutions managed risk by extending less financing to SMEs in general. However, terms and conditions improved for tourism SMEs in 2011. Fewer tourism SMEs

(45.3 percent) were required to pledge collateral in 2011 compared with other SMEs (67.3 percent). In addition, SMEs in both tourism and other industries were offered lower interest rates in 2011.

Tourism SMEs requested less financing, on average, and received less than what they requested in 2011. This can be seen by calculating the ratio of the total

amount of financing approved to the total amount of financing requested. Tourism SMEs had a lower total financing authorized-to-requested ratio than other SMEs in 2011, with 85.0 percent of all financing requested being approved compared with 94.8 percent for other SMEs. This suggests that tourism SMEs had more difficulty obtaining debt financing than other SMEs.

Table 8: Debt Financing Terms and Conditions, 2007 and 2011

	2007		2011	
	Tourism	Other	Tourism	Other
Average interest rate (%)	7.3	7.3	6.3	6.8
Collateral requested (%)	56.8	47.9	45.3	67.3
Average financing requested	—	\$351,106	\$136,589	\$189,285
Average financing authorized	—	\$323,060	\$116,100	\$179,393
Total financing authorized-to-requested ratio (%)	—	92.0	85.0	94.8

Notes: Bold values denote statistically significant difference at 5 percent. Unreliable data were not published and are indicated by "—" in the table.

Sources: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007; and Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

10. Innovation

Statistics Canada's 2011 survey introduced a series of questions on SMEs' innovation practices. Innovation is a key accelerator for business growth and increasing productivity. It constitutes a competitive asset for SMEs and is particularly important for attracting new or repeat customers in the context of very competitive tourism industries.

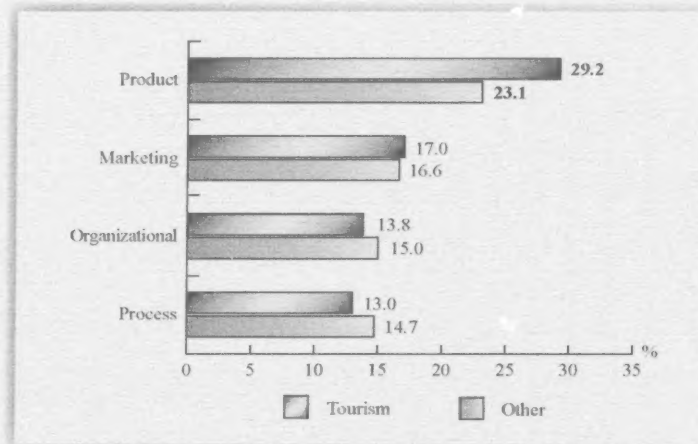
In 2011, about four in ten SMEs (39.5 percent of tourism SMEs versus 37.6 percent of other SMEs) reported introducing one of the following innovations within the previous three years (2009–11):

- New or significantly improved good or service (product innovation);
- New way of selling goods or services (marketing innovation);

- New organizational method associated with business practices, workplace organization or external relations (organizational innovation); or
- New or significantly improved production process or method (process innovation).

Innovators in SMEs in both tourism and other industries mainly developed or introduced new goods or services (product innovation) (Figure 11), and significantly more tourism SMEs (29.2 percent) introduced new goods or services than other SMEs (23.1 percent). The second most common type of innovation was marketing innovation. Marketing plays an important role in tourism as attracting visitors to Canada fuels the success of the industry. Acknowledging the importance of marketing to these industries, the Canadian Tourism Commission offers tool kits aimed at helping tourism SMEs promote their products and leverage market opportunities (see Box 4).

Figure 11: Innovation Developed or Introduced between 2009 and 2011



Note: Bold values denote statistically significant difference at 5 percent.

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Box 4: Great Canadian Innovation in Tourism Industries

The Canadian Tourism Commission has tool kits designed to help Canadian tourism businesses fully leverage market opportunities.

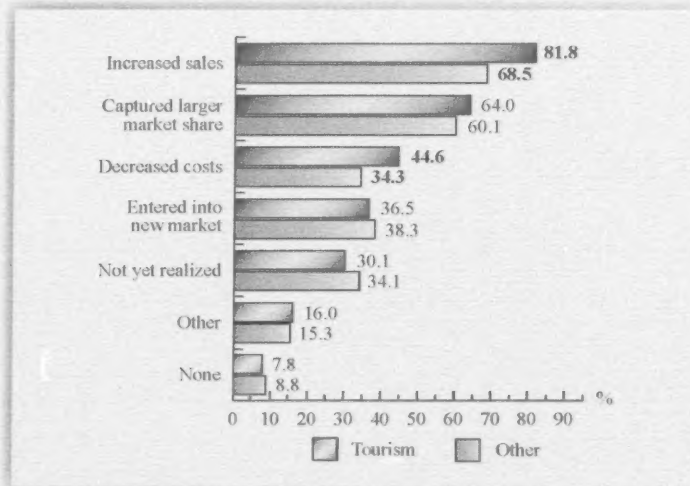
Of note, the EQ Tool Kit (Explorer Quotient) is the most useful and innovative tool kit available to small tourism businesses. It helps businesses understand segmentation of their markets by geography and provides key demographic and socio-cultural indicators of their current and prospective customers. Businesses can use the tool kit to develop better targeted and evidence-based marketing strategies.

For more information, visit the Canadian Tourism Commission at <http://en-corporate.canada.travel/resources-industry/tools>.

A majority of innovators reported benefiting from increased market share in their respective markets. However, a percentage of these innovators did not see any improvements that could be attributed to their innovations (7.8 percent of tourism SMEs and 8.8 percent of other SMEs), while around one third

of innovators (30.1 percent of tourism SMEs and 34.1 percent of other SMEs) had not yet realized any results from the innovations (Figure 12). A significantly larger proportion of tourism SMEs reported increased sales and decreased costs resulting from their innovations compared with other SMEs.

Figure 12: Results of Introducing One or More Innovations, 2009 to 2011

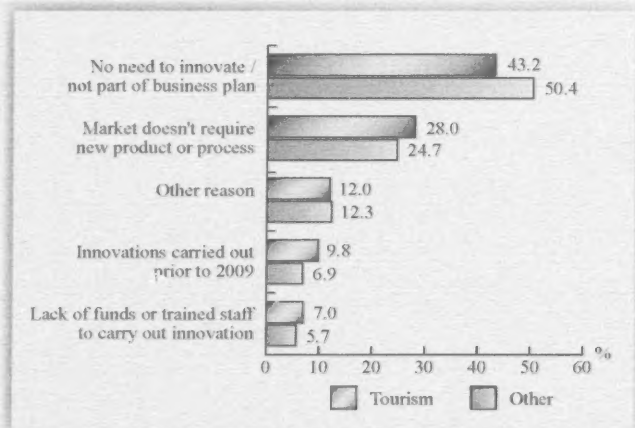


Note: Bold values denote statistically significant difference at 5 percent.

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

Of those businesses that did not innovate between 2009 and 2011, seven in ten tourism SMEs (71.2 percent) believed it was unnecessary for their business or their market (Figure 13). Past tourism SME innovators accounted for nearly one in ten non-innovators (9.8 percent) and a few tourism SMEs (7.0 percent) wanted to innovate, but struggled with insufficient funds or a lack of trained staff to carry out innovation. SMEs in other industries provided similar reasons for not innovating.

Figure 13: Reasons Enterprises did not Innovate, 2011



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2011.

11. Financial Performance

This section of the profile examines the financial performance of Canadian businesses with an annual revenue between \$30,000 and \$5,000,000 using complete data for the most recent year available. Note that this

section uses a definition of small business based upon annual gross revenue, as opposed to the definition based upon the number of employees used elsewhere in the profile, because financial information is only available

through Statistics Canada's *Small Business Profiles*.¹¹ Thus, the number of small businesses involved in tourism using the revenue approach (132,502) is greater than the number of small businesses involved in tourism using the number of employees approach (103,200).¹²

On average, small businesses in tourism industries had higher total revenues than small businesses in all other industries, but they had lower average profits due to higher total expenses.

In 2011, the average revenue of small businesses in tourism industries was \$418,900 compared with \$367,200 for small businesses in other industries (Table 9). However, the average net profit was only

\$22,800 for small businesses in tourism industries compared with \$48,600, on average, for small businesses in other industries. A larger proportion of small businesses in other industries (82 percent) turned a profit in 2011 than small businesses in tourism industries (75 percent). Furthermore, the average net profit was higher than that of small businesses in tourism industries (\$79,600 for small businesses in other industries compared with \$45,700 for small businesses in tourism industries). On the other hand, non-profitable small businesses in tourism industries reported a net loss of \$44,300, on average, in 2011 compared with an average net loss of \$89,700 for small businesses in other industries.

Table 9: Profitable and Non-Profitable Small Businesses,¹ 2011

		Tourism	Other
All businesses	Number of businesses ²	132,502	1,710,955
	Average total revenue	\$418,900	\$367,200
	Average total expenses	\$396,200	\$318,700
	Average net profit	\$22,800	\$48,600
Profitable businesses	Percentage	75	82
	Average total revenue	\$407,400	\$353,600
	Average total expenses	\$361,800	\$274,000
	Average net profit	\$45,700	\$79,600
Non-profitable businesses	Percentage	25	18
	Average total revenue	\$452,700	\$427,500
	Average total expenses	\$517,200	\$515,200
	Average net loss	-\$44,300	-\$89,700

Note 1: Canadian businesses with annual revenues between \$30,000 and \$5,000,000. Figures may not add up due to rounding.

Note 2: The number of small businesses is based upon the revenue definition and differs from figures used elsewhere in the profile based upon the employment definition.

Sources: Statistics Canada, *Small Business Profiles*, 2011; and Industry Canada calculations.

11. The size of a business can be defined in many ways. The number of employees is the most frequently used definition, but when this information is not available, a good alternative is to use annual sales, shipments, or gross or net revenue.

Source: Statistics Canada, *Small Business Profiles*, 2011.

12. It should be noted that the definition based on gross revenue includes businesses of all employment sizes, including non-employers and businesses with more than 500 employees. Large employer businesses, however, such as large hotel chains or transport carriers, would be excluded as they generate more than \$5 million in annual revenue.

Among small businesses in tourism industries, those engaged in travel services and recreation and entertainment industries had the highest average net profit in 2011 at \$28,500 and \$27,800 respectively (Table 10). Nine in ten small businesses were profitable in the transportation industry (92 percent,

the highest percentage of all tourism industries), but they generated the lowest average net profit (\$29,900). In comparison, only two in three small businesses in the accommodations industry generated a profit (66 percent), but they had the highest average net profit among small businesses in tourism industries (\$70,500).

Table 10: Profitable and Non-Profitable Small Businesses by Tourism Industry,¹ 2011

		Transportation	Travel Services	Recreation and Entertainment	Accommodations	Food and Beverage Services
All businesses	Number of businesses ²	25,663	6,224	35,004	12,860	52,751
	Average total revenue	\$160,300	\$567,600	\$246,900	\$490,400	\$623,900
	Average total expenses	\$138,500	\$539,000	\$219,000	\$467,400	\$604,900
	Average net profit	\$21,900	\$28,500	\$27,800	\$23,100	\$19,000
Profitable businesses	Percentage	92	78	80	66	64
	Average total revenue	\$140,200	\$517,800	\$222,600	\$523,700	\$702,200
	Average total expenses	\$110,400	\$469,600	\$175,700	\$453,100	\$653,200
	Average net profit	\$29,900	\$48,300	\$46,900	\$70,500	\$49,100
Non-profitable businesses	Percentage	8	22	20	34	36
	Average total revenue	\$388,900	\$744,400	\$344,700	\$425,500	\$484,600
	Average total expenses	\$458,100	\$786,000	\$393,600	\$495,000	\$518,900
	Average net loss	-\$69,200	-\$41,600	-\$48,900	-\$69,500	-\$34,300

Note 1: Canadian businesses with annual revenues between \$30,000 and \$5,000,000. Figures may not add up due to rounding.

Note 2: The number of small businesses is based upon the revenue definition and differs from figures used elsewhere in the profile based upon the employment definition.

Sources: Statistics Canada, *Small Business Profiles*, 2011; and Industry Canada calculations.

12. Conclusions

Tourism industries account for close to 2 percent of Canada's gross domestic product and provided jobs to over 1.6 million Canadians in 2013. SMEs are the backbone of tourism industries: 99.9 percent of tourism businesses are SMEs and approximately 9 percent of all Canadian SMEs are engaged in tourism industries. These industries outperformed the rest of the economy during the last recession, and have shown strong signs of recovery in recent years, with employment growing more rapidly in tourism industries than in all other industries. As of 2011—the most recent year for which data are available—three quarters of small businesses in tourism industries turned a profit and close to 70 percent of tourism SME owners reported growing their business in the three previous years.

Credit providers view tourism SMEs as relatively risky compared with other SMEs. Compared with other SMEs, tourism SMEs found it harder to obtain debt financing. They were also less likely to use domestic chartered banks and more likely to use a government institution as their main provider of external financing.

In terms of innovation, relatively more tourism SMEs introduced new goods or services to the marketplace than other SMEs. A greater proportion of tourism SMEs benefited from increased sales and reduced costs as a result of their innovations.

Statistics Canada's *Survey on Financing and Growth of Small and Medium Enterprises* will be conducted again in 2015 and will provide up-to-date insights into tourism industries. In particular, it will be interesting to see if the uptake of new technologies and the growth of the co-operative economy (e.g., Airbnb, Uber) lead to the creation of more enterprises or increased innovation. In addition, the expected increase in tourism demand associated with the lead up to Canada's 150th anniversary may translate into growth in demand for financing.

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Appendix

Table A: North American Industry Classification System (NAICS) Codes Included in Tourism Industries

NAICS	Description
Air Transportation	
4811	Scheduled Air Transport
4812	Non-Scheduled Air Transport
Rail Transportation	
4821	Rail Transportation
Water Transportation	
4831	Deep Sea, Coastal and Great Lakes Water Transportation
4832	Inland Water Transportation
Bus Transportation	
4851	Urban Transit Systems
4852	Interurban and Rural Bus Transportation
4854	School and Employee Bus Transportation
4855	Charter Bus Industry
4859	Other Transit and Group Passenger Transportation
Scenic and Sightseeing Transportation	
4871	Scenic and Sightseeing Transportation, Land
4872	Scenic and Sightseeing Transportation, Water
4879	Scenic and Sightseeing Transportation, Other
Taxicabs	
4853	Taxi and Limousine Service
Travel Services	
5615	Travel Arrangement and Reservation Services

NAICS	Description
Recreation and Entertainment	
51213	Motion Picture and Video Exhibition
7111	Performing Arts Companies
7112	Spectator Sports
7115	Independent Artists, Writers and Performers
7121	Heritage Institutions
7131	Amusement Parks and Arcades
7132	Gambling Industries
7139	Other Amusement and Recreation Industries
Hotels	
7211	Traveller Accommodation (except 721114-Motels)
Motels	
721114	Motels
Camping	
721211	RV (Recreational Vehicle) Parks and Campgrounds
Other Accommodations	
721212	Hunting and Fishing Camps
721213	Recreational (except Hunting and Fishing) and Vacation Camps
721198	All Other Traveller Accommodation
Food and Beverage Services	
7221	Full-Service Restaurants
7222	Limited-Service Eating Places
7224	Drinking Places (Alcoholic Beverages)